

AMERISTAR CASINOS INC

Form 10-K

March 16, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2004**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **0-22494**

**AMERISTAR CASINOS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**  
State or Other Jurisdiction of  
Incorporation or Organization

**88-0304799**  
(I.R.S. Employer Identification No.)

**3773 Howard Hughes Parkway  
Suite 490 South  
Las Vegas, Nevada 89109**  
(Address of Principal Executive Offices)

Registrant's Telephone Number, including area code: **(702) 567-7000**

Securities registered pursuant to Section 12(b) of the Act:

**None**  
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$.01 par value**  
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently-completed second fiscal quarter: approximately \$386,938,445, based on the last reported sale price of the registrant's Common Stock on the Nasdaq National Market on June 30, 2004.

As of March 1, 2005, 27,736,281 shares of Common Stock of the registrant were outstanding.

Portions of the registrant's definitive Proxy Statement for its June 17, 2005 Annual Meeting of Stockholders (which has not been filed as of the date of this filing) are incorporated by reference into Part III.

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*Unless the context indicates otherwise, all references in this Report to Ameristar or ACI refer to Ameristar Casinos, Inc. and all references to the Company, we, our, ours or us refer to Ameristar and its consolidated subsidiaries. This Report contains certain forward-looking statements, including management's plans and objectives for our business, operations and financial performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans, is confident that or words of similar meaning, with reference to us or our management. Similarly, statements that describe our future plans, objectives, strategies, financial results, financial position, operational expectations or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control. Accordingly, actual results could differ materially from those contemplated by any forward-looking statements. In addition to the other cautionary statements relating to certain forward-looking statements throughout this Report, attention is directed to Item 1. Business Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of some of the factors, risks and uncertainties that could materially affect the outcome of future results contemplated by forward-looking statements.*

*You should also be aware that while we communicate from time to time with securities analysts, we do not disclose to them any material non-public information, internal forecasts or other confidential business information. Therefore, you should not assume that we agree with any statement or report issued by any analyst, irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain projections, forecasts or opinions, those reports are not our responsibility.*

## **PART I**

### **Item 1. Business**

#### **Introduction**

We are a leading developer, owner and operator of casinos and related entertainment facilities in local and regional markets. Our seven properties in six markets exemplify the highest quality in design and construction and offer outstanding dining, lodging and entertainment options along with the most current gaming technology. Our strategy focuses on providing a dynamic total casino-entertainment experience and achieving a market-leading position in each of our markets.

Our casinos include the most spacious floors and typically have the greatest number of games in our markets. Our properties emphasize slot play and feature state-of-the-art slot machines, virtually all of which incorporate convenient ticket-in, ticket-out technology, and the newest multi-coin nickel and penny denomination games. We also offer a wide range of popular table games, including blackjack, craps and roulette, and live poker in the majority of our markets. We generally emphasize competitive minimum and maximum betting limits based on each market. Our gaming revenues are derived, and we expect them to continue to be derived, from a broad base of customers, and we do not depend upon high-stakes players. We extend credit to our

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Mississippi and Nevada gaming customers only in limited circumstances and limited amounts on a short-term basis and in accordance with the credit restrictions imposed by gaming regulatory authorities. The issuance of casino credit is prohibited in Missouri, Iowa and Colorado.

We offer a greater variety of dining choices than the other casinos in our markets. Our signature restaurant concepts include warm and intimate steakhouses, elaborate buffets with interactive display cooking and 24-hour casual dining restaurants. In addition, our dynamic sports bars feature the most advanced audio-visual technology in their markets. The private Star Clubs offer our select Star Awards members an exclusive and comfortable place to relax at all Ameristar-branded properties.

Our total entertainment strategy includes a wide range of entertainment, showcasing live local, regional and national talent. Our major venues feature popular headliners in music and comedy, as well as professional boxing, while our highly themed Bottleneck Blues Bars and other showrooms set the stage for national and regional bands. Cabaret stages energize each of our casino floors with live entertainment.

The following table presents selected statistical and other information concerning our properties as of January 31, 2005.

	<b>Ameristar St. Charles</b>	<b>Ameristar Kansas City</b>	<b>Ameristar Council Bluffs</b>	<b>Ameristar Vicksburg</b>	<b>Mountain High Black Hawk</b>	<b>The Jackpot Properties (1)</b>
Opening Year	1994	1997	1996	1994	2001	1956
Acquisition Year	2000	2000			2004 <sup>(2)</sup>	
Casino Square Footage (approx.)	130,000 <sup>(3)</sup>	140,000	38,500 <sup>(3)</sup>	42,000 <sup>(3)</sup>	57,000	29,000
Slot Machines (approx.)	3,293	3,003	1,567	1,364	1,200	1,013
Table Games	87 <sup>(4)</sup>	107 <sup>(4)</sup>	39	36	24 <sup>(4)</sup>	29 <sup>(4)</sup>
Hotel Rooms		184	444 <sup>(5)</sup>	149		420
Restaurants/Bars	7/6	11/9 <sup>(6)</sup>	4/4	3/3	3/1	5/4
Restaurant/Bar Seating Capacity	1,613/166	1,910/507 <sup>(6)</sup>	1,030/61	823/32	502/129	534/126
Guest Parking Spaces (approx.)	4,000	7,150	3,000	1,700	1,450	1,130
Other Amenities	300-Seat VIP Players Club; Gift Shop; Amusement Arcade	1,400-Seat Entertainment Facility; 18-Screen Movie Theater <sup>(7)</sup> ; Gift Shop; Amusement Arcade; Cigar Bar; 85-seat VIP Players Club; Kids Quest	2,850-Seat Outdoor Entertainment Facility; Meeting Space; Indoor Swimming Pool & Spa; Exercise Facility; Gift Shop; Amusement	Swimming Pool; Meeting Space; Gift Shop; Service Station	Starbucks Coffee Bar; Gift Shop	3,550-Seat Outdoor Entertainment Facility; 356-Seat Showroom; Sports Book; Meeting Space; RV Park; Swimming Pool; Gift Shop;

Children s Activity Center <sup>(7)</sup>	Arcade; 75-seat VIP Players Club; Kids Quest Children s Activity Center <sup>(7)</sup>	General Store; Service Station; Amusement Arcade; Styling Salon; Tennis Courts
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- (1) Includes the operations of Cactus Petes Resort Casino and The Horseshu Hotel & Casino.
- (2) We acquired Mountain High Casino on December 21, 2004.
- (3) The Ameristar St. Charles casino increased to 130,000 square feet of gaming space on August 6, 2002 upon the opening of a completely new casino-entertainment facility. Expansions of the casinos at Ameristar Council Bluffs and Ameristar Vicksburg opened in November 1999 and December 1999, respectively.
- (4) Includes poker.
- (5) Includes 284 rooms operated by affiliates of Kinseth Hospitality Corporation and located on land owned by us and leased to affiliates of Kinseth.
- (6) Includes a 52-seat food court and Arthur Bryant's Barbeque restaurant leased to and operated by third parties.
- (7) Leased to and operated by a third party.

*Ameristar St. Charles.* The 74,000 square-foot porte-cochere at Ameristar St. Charles provides a stunning entry to this expansive facility. Once inside, a dramatic fountain welcomes guests to a historically-themed streetscape that opens onto a complete casino entertainment experience.

The 130,000 square-foot casino floor ranks Ameristar St. Charles among the 15 largest state-licensed casinos in the U.S. The two-level gaming area feels spacious and open; it accommodates 3,293 slot and video poker machines and 87 table games, including a 12-table poker room.

Seven restaurants offer a range of choices, such as the upscale 47 Port Street Grill steakhouse with exhibition cooking, chef's tables and a private dining room; the chic King Cat Club martini bar; the Landmark Buffet with its multiple serving stations and intimate dining rooms named for local historic sites; and the Southern front-porch inspired Pearl's Oyster Bar. The 24-hour Falcon Diner recreates the American diner with comfortable booths, a soda fountain and Art Deco architecture. The Diner is complemented by a gourmet pastry and coffee bar. The Bottleneck Blues Bar features Southern cuisine as well as live headline entertainment, set off by eclectic Delta blues club decor. Amerisports Bar & Grill boasts a 34-foot-long video wall and two high-tech, giant video screens, which complement the state-of-the-art audio-video system that includes booths customized with personal screens and speakers.

Ameristar St. Charles was chosen as Best Casino by *Riverfront Times* for the last three years. The property also won 11 Best of Casino Player Awards and nine Best of Midwest Gaming Awards in 2004.

We are currently designing a 300-room, all-suite hotel, approximately 20,000 square feet of meeting facilities, a new 1,300-seat entertainment pavilion and an additional parking garage at our St. Charles property. We have not yet completed a definitive project budget or schedule; however, we expect to begin construction in late 2005.

The property is located immediately north of the Interstate 70 bridge over the Missouri River in the St. Louis metropolitan area, strategically situated to attract patrons from the St. Charles and greater St. Louis area, as well as tourists from outside the region. The property is also in close proximity to the new St. Charles convention facility. Interstate 70 is a 10-lane, east-west freeway offering easy accessibility to, and direct visibility of, the Ameristar St. Charles site.

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**Ameristar Kansas City.** Our largest property, Ameristar Kansas City, ranks among the 10 largest state-licensed casino floors in the U.S. A \$64 million investment in renovations and enhancements completed in September 2003 has created dramatic and comprehensive improvements to the property.

The 140,000 square-foot casino floor offers a spacious layout and flow, along with open visibility from the streetscape. Further, the casino floor offers a high-limit area and poker room which is the largest in the Midwest. The casino features 3,003 slot and video poker machines and 107 table games.

Dining at Ameristar Kansas City reflects our strategy to offer more choices: guests can select from 11 restaurants and nine bars/lounges. The Great Plains Cattle Co. has a unique Kansas City-inspired atmosphere. Bugatti's Little Italy Café is recognized as a Don't Miss Dining Venue in the *Zagat Survey*; it was recently completely remodeled and includes a renovated patio dining area. The 24-hour Falcon Diner mirrors our Ameristar St. Charles diner and serves great American favorites and desserts. At The Buffet, guests experience eight stations, from American (including barbeque and broiled steaks) to Italian cuisine. The Amerisports Brew Pub features state-of-the-art video and audio technology on 41 screens. The Brew Pub also features an exhibition brewery where customers can observe the production of Ameristar's award-winning private label beers and choose from a variety of menu items. Casual dining options are available at an open-seating food court, where we lease space to three national brands: Burger King, Sbarro Pizza, and Cold Stone Creamery.

The property also features a wide scope of entertainment options. The Star Pavilion seats approximately 1,400 guests and showcases headline entertainers and professional boxing. The distinctive and historically accurate Depot #9 Stage and Saloon, near the porte-cochere entrance to the property and connected to a historic Pullman railroad car, showcases local and regional bands. Finally, the casino cabaret provides nightly entertainment on the gaming floor.

A 184-room hotel, as well as a state-of-the-art 18-screen movie theater complex, gift shop, video game arcade and Kids Quest activity center, complete the amenities at Ameristar Kansas City. All are easily accessible via ample surface parking or a climate-controlled walkway from a 2,650-space parking garage that was added in 2002. During the fourth quarter of 2004, we began a complete renovation of all the hotel rooms at our Kansas City property. We expect to complete the renovation during the third quarter of 2005.

For the past three years, the facility has earned the Gold Award for Best Casino in *Ingram's Best of Business Edition* and Best Casino in *Kansas City Magazine's* Best of Kansas City readers poll, as well as 2003 and 2004 Favorite Casino Hotel in Missouri in *Midwest Gaming and Travel* and *Casino Player Magazine*.

Located seven miles from downtown Kansas City, Missouri, Ameristar Kansas City is specifically designed to attract customers from the greater Kansas City area, as well as regional overnight guests. The property is in close proximity to the Interstate 435 bridge. Interstate 435 is a six-lane, north-south expressway offering easy access to, and direct visibility of, Ameristar Kansas City.

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***Ameristar Council Bluffs.*** Ameristar Council Bluffs features the largest riverboat and the most casino games in Iowa, comprising 38,500 square feet of gaming space with 1,567 slot machines and 39 table games.

The Ameristar Hotel and Main Street Pavilion comprise the property's landside facilities. The luxurious 160-room hotel, which is currently undergoing significant upgrades, includes 40 whirlpool guestrooms and suites, and has earned the American Automobile Association Four Diamond designation for the past seven years. It was the first riverboat casino hotel to earn this distinction, and it is currently one of only two AAA Four Diamond hotels in the Omaha metropolitan area. On land, guests also find the exclusive Star Club players' lounge; the upscale Waterfront Grill steakhouse with its open fireplace and intimate setting; the Veranda Buffet with its multiple cooking stations; and the Prairie Mill Cafe & Bakery, a 24-hour specialty restaurant and fresh bakery and coffee bar.

The Amerisports Bar and Cabaret offers dining and live entertainment, as well as 42 television screens, the largest of which is a 9 by 12 mega-screen. Other entertainment venues are the casino cabaret and the Star Arena, a scenic 2,850-seat amphitheater and the city's only outdoor riverfront entertainment venue on the bank of the Missouri River. Other amenities include a Kids Quest activity center, fitness facility, indoor pool, gift shop, an ice cream and sweet shop and convention space.

The Waterfront Grill has been named one of the Omaha area's top-10 restaurants by the *Omaha World-Herald*. The property won 20 Best of Casino Player Awards, as well as 12 Best of Midwest Gaming Awards, in 2004.

During the fourth quarter of 2004, we began a complete renovation of all the hotel rooms at our Council Bluffs property. We expect to complete the renovation of the rooms during the second quarter of 2005. Additionally, we are currently undertaking a major redesign and renovation of the Veranda Buffet to make it more upscale, create display-cooking stations and increase capacity to 340 guests. On completion, which is expected to occur in the second quarter of 2005, we will rebrand the buffet venue as the Heritage Buffet.

We anticipate expanding the gaming space to accommodate an additional 300 slot machines and a spacious, upscale poker room. Completion of the gaming space expansion is currently estimated to occur in the second quarter of 2006.

Located across the Missouri River from Omaha, the property is adjacent to the Nebraska Avenue exit on Interstate 29, immediately north of the junction of Interstate 29 and Interstate 80.

***Ameristar Vicksburg.*** Ameristar Vicksburg has been the long-time market leader, attributable to its superior location, premier product quality and outstanding dining and entertainment options.

The three-level dockside casino is significantly wider than other riverboat casinos in our market, providing a spacious feel. The casino features 42,000 square feet of gaming space, with 1,364 new-generation slot machines and 36 table games.

The Bottleneck Blues Bar, which is a Delta-style blues club with live entertainment and gaming, and the Casino Cabaret round out the property's entertainment offerings. Both venues feature at least two groups performing nightly.

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Restaurants include the upscale Waterfront Grill, overlooking the Mississippi River, and the Bottleneck Blues Bar Express Café, with regionally influenced express-service menu selections. In December 2003, we completed a \$9 million buffet and kitchen renovation, re-branding the 400-seat venue as the Heritage Buffet, which features seven specialty food stations along with private meeting facilities with audio/visual capabilities.

The 150-room hotel at Ameristar Vicksburg earned a Three Diamond rating from the American Automobile Association, and the property received the city's most Best of Casino Player Awards in 2004.

In 2005, we intend to expand the property's gaming space to accommodate an increase of 200 slot machines and a poker room.

Ameristar Vicksburg recently filed a zoning application seeking a height variance for a master-planned parking garage and new hotel adjacent to the casino. If zoning approval is received, the first phase of construction is planned to consist of the parking garage, with space for approximately 1,150 vehicles. Hotel construction is expected to follow in multiple phases. The hotel plans include additional dining and meeting rooms, retail space and a swimming pool. We are awaiting approval of the zoning variance before we proceed with developing specific details on the design, timing or cost of the proposed projects.

Ameristar Vicksburg is located one-quarter mile north of Interstate 20 in Vicksburg, Mississippi. The property is visible from the highway exit ramp and is the closest casino to I-20, a major east-west thoroughfare that connects Atlanta and Dallas. It caters primarily to guests from the Vicksburg and Jackson, Mississippi and Monroe, Louisiana areas. The nearby Vicksburg National Military Park attracts more than one million visitors annually.

In February 2005, we signed an agreement to purchase 4.2 acres of property adjacent to our existing hotel. The property fronts on Washington Street and can be used for further expansion of our non-gaming amenities.

***Mountain High Casino.*** We acquired Mountain High Casino in Black Hawk, Colorado on December 21, 2004. It is one of the largest casinos in Colorado and the acquisition adds to our geographic diversification.

The property offers 57,000 square feet for gaming, with approximately 1,200 slot machines and 24 table games (including poker). By law, Colorado casinos may only offer slot machines, blackjack and poker and no single wager may exceed \$5. Other amenities at the property include an upscale steak and seafood restaurant, a seven-station buffet, a food court with grill and stone-fired pizza venues, and Starbucks Coffee Bar. The parking garage offers space for approximately 800 vehicles, with 650 additional valet spaces.

We intend to invest approximately \$140 million in capital expenditures to improve the competitiveness of the property. The planned capital improvements include reconfiguring and expanding the gaming area, introducing cashless slot technology and other gaming equipment upgrades, constructing a 300-room AAA Four Diamond-quality hotel and additional covered parking, upgrading the food and beverage outlets and adding a casual dining restaurant. All of these improvements are expected to be completed during 2005, with the exception of the hotel,

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which is expected to be completed by mid-2007. We plan to rebrand the property as Ameristar Black Hawk once the first phase of enhancements is complete.

Mountain High Casino is located in the center of the Black Hawk gaming district, approximately 40 miles west of Denver, Colorado, and caters primarily to patrons from the Denver metropolitan area.

***The Jackpot Properties.*** Cactus Petes Resort Casino and The Horseshu Hotel & Casino are both located in Jackpot, Nevada, just south of the Idaho border. The Jackpot properties have been operating since 1956, and embody our cornerstone values of superior product quality, premier amenities and exciting entertainment.

Together, the Jackpot properties feature approximately 29,000 square feet of gaming space with 1,013 slot machines and 29 table games, including poker, as well as a sports book.

The properties' resort amenities include 420 hotel rooms, with 30 deluxe hot-tub suites; an Olympic-sized pool and heated spa; a styling salon; lighted tennis courts; a recreational vehicle park; and access to a nearby 18-hole golf course. In addition, a general store and a service station serve guests and regional travelers. Dining selections include an extensive buffet, The Plateau Room fine dining restaurant, a 24-hour casual dining restaurant and a Pizza Hut. We will also be opening a casual Mexican grill, Pancho Villa, at the Horseshu in March 2005. Cactus Petes' Gala Showroom features nationally known entertainment.

Cactus Petes and The Horseshu have long held Four Diamond and Three Diamond ratings, respectively, from the American Automobile Association; Cactus Petes has been named Best Hotel/Resort in rural Nevada for seven consecutive years since 1998 by *Nevada Magazine*.

The properties are located on Nevada State Highway 93, a major regional north-south route, and serve customers primarily from Idaho, and secondarily from Oregon, Washington, Montana, northern California and the southwestern Canadian provinces.

## **Our Business Strategies**

Our key business strategies are: (1) to develop the highest quality facilities in our markets with a wide range of amenities; (2) to lead our markets in slot technology; (3) to emphasize branding and marketing; and (4) to employ efficient, hands-on management. These strategies are designed to create a complete entertainment experience and provide courteous and efficient service that meets or exceeds our customers' expectations.

The core components of our business strategies are as follows:

### ***High Quality Facilities; Diverse Range of Amenities***

We believe we have designed and built the highest quality state-of-the-art facilities in each of the markets in which we operate. Inherent in our project development process is the effective collaboration, coordination and cooperation of our operations and design/construction teams. As a result, our facilities are of superior quality and include cutting-edge technology, which provides our guests with an exciting and complete entertainment experience. We believe our newly acquired Mountain High Casino will be of a comparable quality and design level as our other properties once we complete our planned capital improvements.

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We believe the number and diversity of our amenities is key to attracting customers and developing repeat business. We seek to broaden our appeal by offering more amenities than our competition. We believe that more choices attract more types of customers. Our properties offer restaurants ranging from casual to upscale, and customers can choose from entertainment options ranging from cabaret lounges and sports bars to outdoor amphitheaters and multipurpose entertainment pavilions. Some examples of our non-gaming amenities that have proven successful are our high-tech Amerisports Bars (Council Bluffs, St. Charles and Kansas City), our signature steakhouses (Company-wide), the Falcon Diner (St. Charles and Kansas City) and our unique Bottleneck Blues Bars (Vicksburg and St. Charles). In addition, our properties regularly feature nationally known entertainers, including Paul Anka, the Beach Boys, Pat Benatar, Michael Bolton, the Doobie Brothers, Heart, Julio Iglesias, BB King, Lonestar, Martina McBride, Bob Newhart, LeAnn Rimes, Kenny Rogers, Sinbad, Randy Travis and Dionne Warwick.

### ***Leading Our Markets in Slot Technology***

Slot machines are the core driver of our casino business. We believe that leading our markets in slot machine trends is essential to our success. The most significant innovation in slots today is ticket-in, ticket-out, which creates a more convenient coinless gambling experience for our customers and increases the revenue we earn on each machine. We led our markets in the introduction of this technology and currently approximately 97% of the slot machines at our Ameristar-branded properties have ticket-in, ticket-out capability. We were also the first operator in our markets to introduce a large supply of new-generation nickel and penny video reel slot machines. Although many of our competitors now offer these machines, we believe that we gained a significant competitive advantage by leading this trend. We also continue to focus on the most appropriate product mix. We continually analyze slot utilization and slot machine win per unit to determine the most profitable slot machine mix.

### ***Branding and Marketing***

Our branding and marketing efforts are designed to support each of our properties as the number one casino and entertainment destination in their respective markets. Our multi-tiered players clubs are designed to identify and reward guests based on their level of play. Our best players receive enhanced personalized service and additional benefits through our hosting and ambassador teams. We communicate our entertainment and promotional activities to our guests through targeted direct mail as well as traditional media channels (television, print, radio and outdoor advertising).

### ***Hands-on Management***

Since the inception of the Company, we have developed a number of best practice processes and strategies for our operations. We believe we have enhanced our revenues and minimized our costs by practicing a hands-on management approach at the property and corporate levels. To fully benefit from this management style, we also build into our processes a high level of collaboration and communication among our seven properties and corporate team. Working together permits us to continually refine these processes and at the same time more efficiently manage our business. We have centralized the strategic aspects of operations, marketing, food and beverage, hotel and gaming. In administration, we have centralized many aspects of purchasing, payroll, human resources, information technology and other departments. The centralization of these strategic functions allows our properties to focus on the tactical aspects of our business, including

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guest service, player development, team member relations, food quality, etc.

**Future Expansion**

We continually evaluate opportunities to expand our operations through a variety of means, including entering new North American or overseas markets created by the legalization or expansion of casino gaming, developing new casinos or buying existing casinos in established North American casino gaming markets and expanding through continued growth at our existing properties. Although our preference is to own and operate each of our gaming properties, we may also consider expansion opportunities involving management contracts or joint ventures.

We continue to explore expansion opportunities in the United Kingdom in anticipation of the expected reform of that country's casino gaming laws that would allow large-scale modern casinos to be developed in a limited number of locations throughout the United Kingdom. Primary reform legislation is pending in Parliament, although we have no assurance as to whether or when legislation will be enacted. The development of modern casinos would further require the adoption of planning and tax policies conducive to attract development, the formation of a new regulatory agency and the adoption of regulations.

During 2004, the Commonwealth of Pennsylvania enacted legislation authorizing slot machines at pari-mutuel racetracks and a limited number of non-track locations in Pennsylvania, including at two sites to be selected in Philadelphia. We have acquired an option on a 46-acre site in Philadelphia and are pursuing a gaming license for that site.

We continually review the operating performance of each of our existing properties and the feasibility of enhancing their performance through targeted capital expenditure programs. In doing so, we assess the anticipated relative costs and benefits of the projects under consideration, the availability of cash flows and debt financing to fund capital expenditures and competitive and other relevant factors.

**Markets**

The following table presents a summary of the market characteristics and market performance of our Ameristar-branded properties as of December 31, 2004.

	<b>Ameristar St. Charles</b>	<b>Ameristar Kansas City</b>	<b>Ameristar Council Bluffs</b>	<b>Ameristar Vicksburg</b>
Adult population - within 50 miles	1.9 million	1.5 million	700,000	400,000
	2.8	2.0	1.2	1.0
Adult population - within 100 miles	million	million	million	million
No. of market participants	5	4	3	4
2004 annual market gaming revenue \$ in millions	\$920.9	\$677.0	\$418.1	\$247.2
2004 market growth rate	9.3%	10.2%	7.7%	2.5%
2004 market share	32.0%	35.1%	40.9%	45.4%
2003 market share	31.3%	34.4%	39.2%	40.7%
2004 market share rank	#1	#1	#1	#1

Jackpot, Nevada is just across the border from the State of Idaho. The primary market area for the Jackpot Properties is Twin Falls (located approximately 45 miles north of Jackpot) and Boise (located approximately 150 miles from Jackpot). The primary market area comprises approximately 600,000 adults. The balance of the Jackpot properties' customers comes primarily



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from the northwestern United States and southwestern Canada. As of December 31, 2004, the Jackpot properties had 64% of the slot machines and 72% of the table games in the Jackpot market.

The Black Hawk-Central City gaming market is located approximately 40 miles west of Denver, Colorado. In 2004, this market generated \$577.2 million in gaming revenues, accounting for 80% of the gaming revenues within the State of Colorado. Black Hawk, with 21 of the 28 casinos in the market, generated approximately 91% of the market's gaming revenues in 2004. The primary trading areas for the Black Hawk-Central City market are residents from Denver, Boulder, Golden and Fort Collins, Colorado, as well as Wyoming and western Nebraska. Approximately 2.0 million adults reside within 50 miles of Black Hawk and over 2.8 million adults reside within 100 miles.

## **Competition**

### ***St. Charles***

Ameristar St. Charles competes with four other gaming operations located in the metropolitan St. Louis area. Two of these competitors are located in the State of Illinois. Unlike the State of Missouri, Illinois does not impose a \$500 per person buy-in limit, does not require a casino-issued identification card to enter a casino and allows credit play. However, Illinois casinos are limited in the number of gaming positions allowed and are subject to a higher rate of gaming taxes than Missouri casinos. In the third quarter of 2004, our principal competitor completed an \$80 million expansion, which included an additional 300-room hotel tower, the addition of two new restaurants, as well as several other non-gaming amenities. There were no other major capital improvements or expansions in the St. Louis market in 2004.

The St. Louis gaming market is currently insulated from other casino gaming markets. In the third quarter of 2004, the Missouri Gaming Commission prioritized for investigation a gaming license application for a new casino license located in Lemay, in the southeastern portion of St. Louis County. The proposed \$300 million development would consist of a 75,000 square foot casino, 200-room hotel and 2,000 parking spaces and is slated for completion in late 2006. At the same time, the Missouri Gaming Commission prioritized for investigation a gaming license application by the same developer for a new facility at Laclede's Landing in downtown St. Louis. The proposed \$250 million development would consist of a 90,000 square foot casino, 100-room hotel and 5,200 parking spaces and is projected to open in late 2007. In October 2004, another operator agreed to purchase the existing President Casino located in downtown St. Louis. The new owner of the President has announced plans to enhance the current facility. The Alton Belle Casino in Alton, Illinois, across the Mississippi River from downtown St. Louis, is expected to undergo a change in control in connection with the acquisition of its parent company by another gaming company, which acquisition is expected to close in mid-2005. The acquiring company has not announced plans for any changes it may make at the Alton Belle. The addition of two gaming licenses in the St. Louis market, as well as any replacement or upgrade to the President or Alton Belle casinos, would result in additional competition for Ameristar St. Charles. The State of Illinois has one dormant gaming license that it has announced it intends to reissue in the greater Chicago area. Accordingly, we do not anticipate any new competition in the Illinois portion of the St. Louis market.

### ***Kansas City***

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Ameristar Kansas City competes with three other gaming operations located in and around Kansas City, Missouri. In December 2003, Argosy Casino, located approximately 13 miles from Ameristar Kansas City, replaced its existing three-level casino riverboat with a single-level, 62,000 square foot barge-based facility. Additionally, Argosy is currently constructing a hotel and replacing its parking garage. In 2004, Argosy increased its market share at the expense of our other two competitors in the Kansas City market. Our primary competitor is in the process of completing a \$107 million renovation which will include 206 additional rooms, new restaurants, an expanded parking area and several new non-gaming amenities. The project is expected to be completed in the third quarter of 2005. The remaining competitors did not have any major capital improvements or expansions in 2004.

The Kansas City market is currently insulated from other casino gaming markets, with no competing markets within 50 miles. However, see *Risk Factors* for information concerning current proposals to legalize casino gaming in or near Kansas City, Kansas, which is in close proximity to Ameristar Kansas City.

***Council Bluffs***

Ameristar Council Bluffs operates one of three gaming licenses issued for the Council Bluffs gaming market pursuant to an operating agreement with Iowa West Racing Association. The other competitors are operated by a single company and consist of another riverboat casino and a pari-mutuel racetrack casino, which currently only offers slot machines. In 2004, the operator of the competing riverboat casino completed an \$8.5 million renovation of their hotel rooms and opened a new buffet. During the same period, the pari-mutuel racetrack casino opened a new VIP players lounge. In 2004, the Iowa legislature enacted a bill which permits the operation of table games and video poker at pari-mutuel racetracks. The competing racetrack casino is developing an \$86 million expansion of their land-based facility, which will be rebranded and include a 93,000 square foot casino (inclusive of space for newly approved table games), a 1,200 space parking garage and several other non-gaming amenities. The project is scheduled for completion in the first quarter of 2006.

The Council Bluffs market is currently insulated from other casino gaming markets, with the nearest competing gaming jurisdiction located approximately 90 miles away. In 2004, the electorate of the State of Nebraska considered various proposals to legalize casino gaming. None of the referenda were approved, which approvals could have had a material impact on the Council Bluffs casino gaming market. In the future, the State of Nebraska may again consider legalization of casino gaming which, if passed, would likely result in increased competition for Ameristar Council Bluffs. See *Risk Factors* for further discussion of these matters.

***Vicksburg***

Ameristar Vicksburg competes with three other gaming operations located in Vicksburg. In October 2003, a change of ownership occurred at one of Ameristar Vicksburg's competitors. We believe that the change in ownership has benefited Ameristar Vicksburg through an increase in market share. One competitor completed a \$1 million renovation of its hotel rooms and public areas in the fourth quarter of 2004 and has undertaken a \$5 million project to construct a new 330-seat buffet. The buffet is expected to be completed in mid-2005. There were no major capital improvements or expansions by the remaining two Vicksburg market competitors in 2004. The Vicksburg market also faces regional competition from two casinos owned by a

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Native American tribe in Philadelphia, Mississippi, located about 70 miles east of Jackson and 115 miles east of Vicksburg. Vicksburg is also subject to competition from four casinos and one slots-only racetrack in Shreveport and Bossier City, Louisiana, located approximately 175 miles from Vicksburg.

Several potential gaming sites still exist in or near Vicksburg and from time to time potential competitors have proposed the development of additional casinos. In February 2005, the Mississippi Gaming Commission granted preliminary approval for a fifth casino license in the Vicksburg market. The developer has proposed building a casino facility which includes a 250-room hotel, parking garage and other non-gaming amenities. If other required approvals are obtained, this project could open in early 2007. In addition, proposals have been made from time to time to develop additional Native American casinos in Louisiana and Mississippi, some of which could be competitive with the Vicksburg market if completed.

***Black Hawk***

Mountain High Casino competes with approximately 25 other gaming operations located in the Black Hawk and Central City gaming market in Colorado. Of the competing casinos, only five are considered large competitors, with over 20,000 square feet of gaming space. Mountain High Casino has one of the largest gaming floors of any casino in the Black Hawk market. Mountain High Casino's primary competitor is the Isle of Capri, which is one of the first major casinos one encounters when entering Black Hawk from Denver via Route 119. Isle of Capri is in the process of completing a \$94 million expansion of its property and the adjacent Colorado Central Station property which it purchased in 2003. The expansion of the combined properties will increase the number of hotel rooms and parking capacity and connect the two properties via an enclosed skywalk. A partial expansion of the parking complex and gaming area was completed in the fourth quarter of 2004. The remainder of the parking and hotel complex is scheduled for completion in early 2006.

The Black Hawk-Central City gaming market is currently insulated from other casino gaming markets, with no competing markets within 50 miles. However, there have been several proposals for the development of a Native American casino located in the Denver metropolitan area. Should a casino development in the Denver area occur, the Black Hawk-Central City market would face increased competition. See Risk Factors for more information.

***Jackpot***

The Jackpot properties compete with four other hotels and motels (three of which also have casinos) in Jackpot. There were no major capital improvements or expansions in the Jackpot market in 2004. We are not aware of any other expansion plans by existing or potential competitors in Jackpot in the near future; however, casinos with video lottery terminals ( VLT ) similar to slot machines are operated on Native American land in Idaho, including one near Pocatello with approximately 900 VLT machines that is operated by the Shoshone-Bannock Tribes.

In November 2002, the Idaho electorate passed Proposition 1, which legalized specific ticket-pay gaming machines on Native American reservations in the state, along with a limited growth plan allowing an increase of 5% in machine count per year, not to exceed 25% over the next 10 years, with a subsequent renegotiation of compacts thereafter. A legal challenge to Proposition 1

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has been filed and is currently pending. Litigation is also pending concerning the scope of gaming permitted under the compact between the State of Idaho and the Shoshone-Bannock Tribes.

In addition, casino gaming on Native American lands in both western Washington and northeastern Oregon has been in operation for several years and casinos also operate in Alberta, Canada.

## **Employees and Labor Relations**

As of March 1, 2005, we employed approximately 7,480 full- and part-time employees. None of our employees is employed pursuant to collective bargaining or other union arrangements, although a Teamsters Union local recently unsuccessfully attempted to organize a group of beverage employees at Ameristar Kansas City. We believe our employee relations are good.

## **Incorporation**

Ameristar was incorporated in Nevada in 1993.

## **Risk Factors**

*The gaming industry is very competitive and increased competition could have a material adverse effect on our future operations.*

The gaming industry is very competitive and we face dynamic competitive pressures in each of our markets. Several of our competitors are larger and have greater financial and other resources. We may choose or be required to take actions in response to competitors that may increase our marketing costs and other operating expenses.

Our operating properties are located in jurisdictions that restrict gaming to certain areas or are adjacent to states that prohibit or restrict gaming operations. These restrictions and prohibitions provide substantial benefits to our business and our ability to attract and retain customers. The legalization or expanded legalization or authorization of gaming within or near a market area of one of our properties could result in a significant increase in competition and have a material adverse effect on our business, financial condition and results of operations. Economic difficulties faced by state governments, as well as the increased acceptance of gaming as a leisure activity, could lead to intensified political pressure for the expansion of legalized gaming.

From time to time, legislation and ballot measures have been unsuccessfully proposed in Kansas, Nebraska and Colorado for the legalization or expansion of gaming. In Nebraska, several referenda on the statewide ballot that would have legalized two alternative forms of casino gaming were defeated in November 2004. In both Nebraska and Kansas, bills have been introduced from time to time in the legislature for the legalization of casino gaming, several of which are currently pending in Kansas. These proposals would authorize gaming in or near, among other places, Omaha, Nebraska and Kansas City, Kansas, in close proximity to our existing facilities in Council Bluffs, Iowa and Kansas City, Missouri, respectively. The legalization of gaming in these locations and the additional competition resulting from the subsequent development of competing gaming properties could have a material adverse effect on us.

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The Missouri Gaming Commission has prioritized for investigation gaming license applications for new casino facilities in downtown St. Louis and southeastern St. Louis County, approximately 15 miles and 20 miles, respectively, from Ameristar St. Charles. St. Louis city officials and members of the Missouri Gaming Commission have also stated that they would like to see a currently operating casino in downtown St. Louis improved or replaced. If any of these developments is successfully completed, we will face additional or enhanced competition.

Our competitor that operates the pari-mutuel racetrack casino in Council Bluffs recently announced plans to rebrand the property as part of a major expansion and renovation. Upon completion, which is expected to occur in the first quarter of 2006, the property will include 69% more gaming space, 1,900 slot machines, 36 table games, a poker room and additional non-gaming amenities. Prior to a change in Iowa law in 2004, racetrack casinos were not permitted to offer table games or video poker machines. The future operating results of Ameristar Council Bluffs may be adversely affected by the additional competition.

Our principal competitors in the St. Louis and Black Hawk markets have also recently completed, or will soon complete, significant expansions of their facilities. In Vicksburg, several potential gaming sites still exist, and one company has recently received preliminary Mississippi Gaming Commission approval for the development of a new casino.

Native American gaming facilities in some instances operate under regulatory and financial requirements that are less stringent than those imposed on state-licensed casinos, which could provide them with a competitive advantage and lead to increased competition in our markets. We believe that recent operating results at our Jackpot properties have been adversely affected by intensified competition from an Idaho Native American facility that is closer to a portion of our market area. The legislatures in Kansas and Nebraska are considering pending legislation that would allow various forms of Native American gaming in close proximity to our properties in Kansas City and Council Bluffs. Additionally, two federally recognized tribes have asserted land claims in Colorado and are attempting to have land in metropolitan Denver placed in trust by the federal government to be used for casino gaming.

The entry into our current markets of additional competitors could have a material adverse effect on our business, financial condition and results of operations, particularly if a competitor were to obtain a license to operate a gaming facility in a superior location. Furthermore, increases in the popularity of, and competition from, Internet and other account wagering and gaming services, which allow customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, could have a material adverse effect on our business, financial condition, operating results and prospects.

***If the jurisdictions in which we operate increase gaming taxes and fees, our results could be adversely affected.***

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and government officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Periods of economic downturn and budget deficits such as currently exist in many states may intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. In 2002, large gaming tax increases were enacted in Illinois and Indiana. In 2003, Illinois enacted an additional large gaming tax increase, the State of New Jersey increased various taxes on casinos

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and casino patrons and the State of Nevada increased its tax on gross gaming revenues from 6.25% to 6.75%.

In 2004, in response to an Iowa Supreme Court ruling that decreased the gaming taxes payable by casinos at pari-mutuel racetracks, the Iowa legislature approved an increase in the maximum tax rate on gaming revenues of riverboat casinos from 20% to 22%, effective July 1, 2004. We will also be required to pay a special additional assessment of approximately \$3.6 million in each of 2005 and 2006, which is recoverable as a credit against future gaming taxes beginning in 2010. This tax increase has negatively impacted operating income at Ameristar Council Bluffs and will continue to do so.

Several bills have been introduced in the Missouri legislature in recent years that would increase the gaming tax rate, and similar legislation has been introduced in the current session.

In Colorado, the Colorado Limited Gaming Control Commission has the authority to establish the gaming tax rate on an annual basis, up to a maximum rate of 40% of gross receipts, without further legislative action. The current rate of 20% on gross receipts over \$15.0 million has been in effect since 1996.

If the jurisdictions in which we operate were to further increase gaming taxes or fees, depending on the magnitude of the increase and any offsetting factors (such as the elimination of the buy-in limit in Missouri), our financial condition and results of operations could be materially adversely affected.

***Our business is subject to restrictions and limitations imposed by gaming regulatory authorities that could adversely affect us.***

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The States of Missouri, Iowa, Mississippi, Colorado and Nevada and the applicable local authorities require various licenses, findings of suitability, registrations, permits and approvals to be held by us and our subsidiaries. The Missouri Gaming Commission, the Iowa Racing and Gaming Commission, the Mississippi Gaming Commission, the Colorado Limited Gaming Control Commission and the Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or not renew a license or approval to own the stock of any of our Missouri, Iowa, Mississippi, Colorado or Nevada subsidiaries, respectively, for any cause deemed reasonable by such licensing authority. Our licenses in Missouri need to be renewed every two years, our gaming licenses in Iowa and Colorado must be renewed or continued every year, and our gaming license in Mississippi must be renewed every three years. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiaries and the persons involved, and we could be forced to forfeit portions of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets could have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our currently operating gaming activities. However, gaming licenses and related approvals are deemed to be privileges under the laws of all the jurisdictions in which we operate. We cannot assure you that our existing licenses, permits

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and approvals will be maintained or extended. We also cannot assure you that any new licenses, permits and approvals that may be required in the future will be granted to us.

***Financial leverage may impair our financial condition and restrict our operations.***

Our leverage ratio (as defined in our senior credit facilities) has improved from 3.49:1 as of December 31, 2003 to 3.29:1 as of December 31, 2004, while our total indebtedness has increased from \$716.9 million as of December 31, 2003 to \$766.3 million as of December 31, 2004 due to increased borrowing to fund our acquisition of Mountain High Casino. The degree to which we are leveraged could have important adverse consequences to our business, including:

Increasing our vulnerability to general adverse economic and industry conditions;

Limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements;

Requiring a substantial portion of our cash flows from operations for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions dividends and general corporate requirements;

Limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

Placing us at a competitive disadvantage to less leveraged competitors.

The terms of our senior credit facilities and the indenture governing our senior subordinated notes contain covenants that may restrict our ability to, among other things, borrow money, pay dividends, make capital expenditures and effect a consolidation, merger or disposal of substantially all of our assets. Although the covenants in our senior credit facilities and the indenture are subject to various exceptions that are intended to allow us to operate without undue restraint in certain anticipated circumstances, we cannot assure you that these covenants will not adversely affect our ability to finance future operations or capital needs or to engage in other activities that may be in our best interest. In addition, our long-term debt requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. A breach of any of these covenants would result in a default under our senior credit facilities and the indenture. If an event of default under our senior credit facilities occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In addition, our senior credit facilities are secured by first priority security interests on substantially all of our real and personal property, including the capital stock of our subsidiaries. If we are unable to pay all amounts declared due and payable in the event of a default, the lenders could foreclose on these assets.

***We will soon need to obtain replacement financing.***

Our revolving credit facility and our term loan facility mature in December 2005 and December 2006, respectively. Additionally, without any change to the existing terms of our senior credit facilities, it is likely that we would violate covenants relating to permitted dividend payments, the maximum senior debt ratio and permitted capital expenditures during the second

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half of 2005. Accordingly, we will be required to refinance our senior debt in the near future. We can offer no assurance as to the terms of any such refinancing that may be available.

***We are subject to the risk of rising interest rates.***

All of our borrowings under our senior credit facilities bear interest at variable rates. As of December 31, 2004, we had \$381.0 outstanding under our senior credit facilities and \$1.0 million in other long-term debt that bears interest at variable rates. If short-term interest rates continue to rise, our interest cost will increase, which will adversely affect our net income and available cash.

***Worsening economic conditions or geopolitical circumstances may adversely affect our business.***

Our business may be adversely affected by economic downturns and instability, as we are dependent on discretionary spending by our customers. Any worsening of current economic conditions could cause fewer people to spend money at our properties and could adversely affect our revenues. Other geopolitical events, such as terrorism or the threat of terrorism, may deter customers from visiting our properties.

***We have limited opportunities to grow our business.***

The casino gaming industry has limited growth opportunities. Most jurisdictions in which casino gaming is currently permitted place numerical and/or geographical limitations on the issuance of new gaming licenses. Although a number of jurisdictions in the United States and foreign countries are considering legalizing or expanding casino gaming, in some cases new gaming operations may be restricted to specific locations, such as pari-mutuel racetracks. Moreover, it is not clear whether the tax, land use planning and regulatory structures that may be applicable to any new gaming opportunity would make the development and operation of a casino financially acceptable. We expect that there will be intense competition for any attractive new opportunities that do arise, and many of the companies competing for such opportunities will have greater resources than we do. Therefore, we cannot assure you that we will be able to successfully expand our business.

***Craig H. Neilsen owns a majority of our common stock and controls our affairs.***

Mr. Neilsen is our Chairman of the Board, President and Chief Executive Officer, and he owns approximately 56% of our outstanding Common Stock. Accordingly, Mr. Neilsen has the ability to control our operations and affairs, including the election of the entire Board of Directors and, except as otherwise provided by law, other matters submitted to a vote of the stockholders, including a merger, consolidation or sale of assets. As a result, actions which may be supported by a majority of the other stockholders could be blocked by Mr. Neilsen. In addition, Mr. Neilsen's substantial ownership affects the liquidity in the market for our Common Stock.

***A change in control could result in the acceleration of our debt obligations.***

Certain changes in control could result in the acceleration of our senior credit facilities and our senior subordinated notes. This acceleration could be triggered in the event Mr. Neilsen sells a significant portion of his stock or upon his death if his estate, private foundation, heirs or

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devises sell a substantial number of shares of our Common Stock, which they might have to do in order to pay estate tax liabilities or satisfy legal requirements applicable to shareholdings by private foundations. We cannot assure you that we would be able to repay any indebtedness that is accelerated as a result of a change in control, and this would likely materially adversely affect our financial condition.

***Our business may be materially impacted by an act of terrorism or by additional security requirements that may be imposed on us.***

The U.S. Department of Homeland Security has stated that places where large numbers of people congregate, including hotels, are subject to a heightened risk of terrorism. An act of terrorism affecting one of our properties, whether or not covered by insurance, or otherwise affecting the travel and tourism industry in the United States, may have a material adverse effect on our business. Additionally, our business may become subject to increased security measures designed to prevent terrorist acts.

***Many factors, some of which are beyond our control, could adversely affect our ability to successfully complete our construction and development projects as planned.***

*General Construction Risks – Delays and Cost Overruns.* Construction and expansion projects for our properties entail significant risks. These risks include: (1) shortages of materials (including slot machines or other gaming equipment); (2) shortages of skilled labor or work stoppages; (3) unforeseen construction scheduling, engineering, environmental or geological problems; (4) weather interference, floods, fires or other casualty losses; (5) unanticipated cost increases; and (6) construction period disruption to existing operations.

Our anticipated costs and construction periods for construction projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects, consultants and contractors. The cost of any construction project undertaken by us may vary significantly from initial expectations, and we may have a limited amount of capital resources to fund cost overruns on any project. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate cash flows from operations or other financing is available. The completion date of any of our construction projects could also differ significantly from initial expectations for construction-related or other reasons. We cannot assure you that any project will be completed on time, if at all, or within established budgets. Significant delays or cost overruns on our construction projects could have a material adverse effect on our business, financial condition and results of operations.

We employ fast-track design and construction methods in some of our construction and development projects. This involves the design of future stages of construction while earlier stages of construction are underway. Although we believe that the use of fast-track design and construction methods can reduce the overall construction time, these methods may not always result in such reductions, often involve additional construction costs than otherwise would be incurred and may increase the risk of disputes with contractors, all of which could have a material adverse effect on our business, financial condition and results of operations.

*Construction Dependent upon Available Financing and Cash Flows from Operations.* The availability of funds under our senior credit facilities at any time will be dependent upon, among

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other factors, the amount of our consolidated earnings before interest, taxes, depreciation and amortization expense ( EBITDA ) during the preceding four full fiscal quarters. Our future operating performance will be subject to financial, economic, business, competitive, regulatory and other factors, many of which are beyond our control. Accordingly, we cannot assure you that our future consolidated EBITDA and the resulting availability of operating cash flows or borrowing capacity will be sufficient to allow us to undertake or complete current or future construction projects.

As a result of operating risks, including those described in this section, and other risks associated with a new venture, we cannot assure you that, once completed, any development project will increase our operating profits or operating cash flows.

***If any of our key personnel leaves us, our business may be significantly affected.***

We depend on the continued performance of Craig H. Neilsen, our Chairman, President and Chief Executive Officer, and the rest of our management team. If we lose the services of Mr. Neilsen, any of our other key executives or our senior property management personnel and cannot replace such persons in a timely manner, it could have a material adverse effect on our business.

***The market for qualified property and corporate management personnel is subject to intense competition.***

We have experienced and expect to continue to experience strong competition in hiring and retaining qualified property and corporate management personnel, including competition from numerous Native American gaming facilities that are not subject to the same taxation regimes as we are and therefore may be willing and able to pay higher rates of compensation. Recruiting and retaining qualified management personnel is particularly difficult at Ameristar Vicksburg, Mountain High Casino and the Jackpot properties due to local market conditions. If we are unable to successfully recruit and retain qualified management personnel at our properties or at our corporate level, our results of operations could be materially adversely affected.

***Adverse weather conditions in the areas in which we operate could have an adverse effect on our results of operations and financial condition.***

Adverse weather conditions, particularly flooding, heavy snowfall and other extreme conditions, can deter our customers from traveling or make it difficult for them to visit our properties. If any of our properties were to experience prolonged adverse weather conditions, or if our Midwestern and Colorado properties were to simultaneously experience adverse weather conditions, our results of operations and financial condition would be adversely affected.

***Any loss from service of our riverboat and barge facilities for any reason could materially adversely affect us.***

Our riverboat and barge facilities could be lost from service due to casualty, mechanical failure, extended or extraordinary maintenance, floods or other severe weather conditions. In addition, U.S. Coast Guard regulations set limits on the operation of vessels and require that vessels be operated by a minimum complement of licensed personnel.

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The U.S. Coast Guard also requires all United States flagged-passenger vessels operating exclusively in fresh water to conduct a thorough dry-dock inspection of underwater machinery, valves and hull every five years. Less stringent inspection requirements apply to permanently moored barges like those at Ameristar Kansas City, Ameristar St. Charles and Ameristar Vicksburg. The Ameristar Council Bluffs riverboat was scheduled for its dry-dock inspection in October 2005, but we have been accepted into a U.S. Coast Guard program that has extended the dry-dock requirement until April 2008 by agreeing to undergo a thorough underwater inspection in October 2005. A dry-dock inspection would take the Council Bluffs casino out of service for a substantial period of time, which could have a material adverse effect on Ameristar Council Bluffs.

The Ameristar Vicksburg site has experienced some ongoing geologic instability that requires periodic maintenance and improvements. Although we have reinforced the cofferdam basin in which the vessel floats, further reinforcements may be necessary. We are also monitoring the site to evaluate what further steps, if any, may be necessary to stabilize the site to permit operations to continue. A site failure would require Ameristar Vicksburg to limit or cease operations.

The loss of a riverboat or barge facility from service for any period of time likely would adversely affect our operating results and borrowing capacity under our long-term debt facilities in an amount that we are unable to reasonably estimate. It could also result in the occurrence of an event of a default under our credit agreement.

***We could face severe penalties and material remediation costs if we fail to comply with applicable environmental regulations.***

As is the case with any owner or operator of real property, we are subject to a variety of federal, state and local governmental regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Failure to comply with environmental laws could result in the imposition of severe penalties or restrictions on operations by government agencies or courts, which could adversely affect our operations. We do not have environmental liability insurance to cover most such events, and the environmental liability insurance coverage we maintain to cover certain events includes significant limitations and exclusions. In addition, if we discover any significant environmental contamination affecting any of our properties, we could face material remediation costs or additional development costs for future expansion activities.

## **Government Regulation**

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. We are required to obtain and maintain gaming licenses in each of the jurisdictions in which we conduct gaming. The limitation, conditioning or suspension of gaming licenses could (and the revocation or non-renewal of gaming licenses, or the failure to reauthorize gaming in certain jurisdictions, would) materially adversely affect our operations in that jurisdiction. In addition, changes in law that restrict or prohibit our gaming operations in any jurisdiction could have a material adverse effect on us.

### ***Missouri***

The ownership and operation of riverboat and dockside gaming facilities in Missouri are subject to extensive state and local regulation, but primarily the licensing and regulatory control

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of the Missouri Gaming Commission. The Missouri Riverboat Gaming Act (the Missouri Act ) provides for the licensing and regulation of riverboat and dockside gaming operations on the Mississippi and Missouri Rivers in the State of Missouri and the licensing and regulation of persons who distribute gaming equipment and supplies to gaming licensees.

The Missouri Gaming Commission has discretion to approve gaming license applications for permanently moored ( dockside ) casinos, powered ( excursion ) riverboat casinos and barges and to determine the number, location and type of excursion gambling boats allowed each licensee. Due to safety concerns, all gaming vessels on the Missouri River are permitted to be moored in moats within 1,000 feet of the river. Gaming licenses are initially issued for two one-year periods and must be renewed every two years thereafter. The gaming licenses at Ameristar Kansas City and Ameristar St. Charles are next subject to renewal in September 2006. No gaming licensee may pledge or transfer in any way any license, or any interest in a license, issued by the Missouri Gaming Commission. As a result, the gaming licenses of our wholly owned Missouri subsidiaries were not pledged to secure our senior credit facilities.

The issuance, transfer and pledge of ownership interests in a gaming licensee are also subject to strict notice and approval requirements. Missouri Gaming Commission regulations prohibit a licensee from doing any of the following without at least 60 days prior notice to the Missouri Gaming Commission, and during such period, the Missouri Gaming Commission may disapprove the transaction or require the transaction be delayed pending further investigation:

any transfer or issuance of an ownership interest in a gaming licensee that is not a publicly held entity or a holding company that is not a publicly held entity, and

any pledge or grant of a security interest in an ownership interest in a gaming licensee that is not a publicly held entity or a holding company that is not a publicly held entity;

provided that no ownership interest may be transferred in any way pursuant to any pledge or security interest without separate notice to the Missouri Gaming Commission at least 30 days prior to such transfer, which restriction must be specifically included in the grant of a security interest.

Under the Missouri Act, all members of our Board of Directors, certain members of our management and certain of our employees associated with our gaming business are required to obtain and maintain occupational licenses. Currently, all such persons required to obtain occupational licenses have obtained them. The Missouri Gaming Commission may deny an application for a license for any cause that it deems reasonable.

Substantially all loans, leases, sales of securities and similar financing transactions by a gaming licensee must be reported to and approved by the Missouri Gaming Commission. Missouri Gaming Commission regulations require a licensee to notify the Missouri Gaming Commission of its intention to consummate any of the following transactions at least 15 days prior to such consummation, and the Missouri Gaming Commission may reopen the licensing hearing prior to or following the consummation date to consider the effect of the transaction on the licensee's suitability:

any issuance of an ownership interest in a publicly held gaming licensee or a publicly held holding company, if such issuance would involve, directly or indirectly, an amount of

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ownership interest equaling 5% or greater of the ownership interest in the gaming licensee or holding company after the issuance is complete,

any private incurrence of debt equal to or exceeding \$1 million by a gaming licensee or holding company that is affiliated with the holder of a license,

any public issuance of debt by a gaming licensee or holding company that is affiliated with the holder of a license, and

any significant related party transaction as defined in the regulations.

The Missouri Gaming Commission may waive or reduce the 15-day notice requirement.

The Missouri Act imposes operational requirements on riverboat operators, including a charge of \$2 per gaming customer per two-hour cruise that licensees must pay to the Missouri Gaming Commission, certain minimum payout requirements, a 20% tax on adjusted gross receipts, prohibitions against providing credit to gaming customers (except for the use of credit cards and cashing checks) and a requirement that each licensee reimburse the Missouri Gaming Commission for all costs of any Missouri Gaming Commission staff necessary to protect the public on the licensee's riverboat. Licensees must also submit audited quarterly financial reports to the Missouri Gaming Commission and pay the associated auditing fees. Other areas of operation which are subject to regulation under Missouri rules are the size, denomination and handling of chips and tokens, the surveillance methods and computer monitoring of electronic games, accounting and audit methods and procedures, and approval of an extensive internal control system. The Missouri rules also require that all of an operator's chips, tokens, dice, playing cards and electronic gaming devices must be acquired from suppliers licensed by the Missouri Gaming Commission, or another person or entity approved by the Missouri Gaming Commission.

The Missouri Act provides for a buy-in limit of \$500 per person per two-hour cruise. Although the Missouri Act provides no limit on the amount of riverboat space that may be used for gaming, the Missouri Gaming Commission can impose space limitations through the adoption of rules and regulations. Additionally, United States Coast Guard safety regulations could affect the amount of riverboat space that may be devoted to gaming. The Missouri Act also includes requirements as to the form of riverboats, which must resemble Missouri's riverboat history to the extent practicable and include certain non-gaming amenities. All licensees currently operating riverboat gaming operations in Missouri are authorized to conduct all or a portion of their operations on a dockside basis, and open and continuous boarding is permitted.

The Missouri Act requires each licensee to post a bond or other security to guarantee that the licensee complies with its statutory obligations. The Missouri Act also gives the Missouri Gaming Commission the authority to require gaming licensees to post a bond or other form of security to the State of Missouri to, among other things, guarantee the completion of an expansion of a gaming facility within a time period determined by the Missouri Gaming Commission.

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